FDIC State Profile

Spring 2004

Texas

Texas nonfarm job growth continued to lag the nation in 2003.

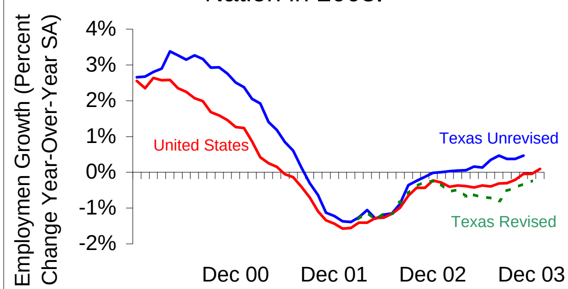
- Recent revisions to employment data showed Texas still losing jobs throughout last year (See Chart 1). Previous employment data had shown a return to positive job growth in 2003.
- The weak employment situation nationally, along with certain locally troubled industries such as telecommunications and airlines, has contributed to the state's struggling job performance.
- Other factors that are muting Texas employment growth are strong productivity gains and fierce global competition both of which induce firms to produce products at the lowest cost without hiring new employees.

Job growth in Texas has been uneven with respect to the state's major industry sectors.

- Educational/health services and natural resources and mining have been the fastest growing sectors, led by favorable demographics, low mortgage interest rates and higher energy prices (See Chart 2).
- Employment losses were concentrated in the goods-producing sectors of manufacturing and construction as well as the sector of trade, transportation and utilities.
- Texas job growth, which was previously thought to be positive, was revised into negative territory because of steep declines in construction, manufacturing, transportation and professional business services employment.
- A weakening U.S. dollar, rising factory orders, and already lean business inventories should help stabilize employment in the manufacturing sector sometime in 2004.

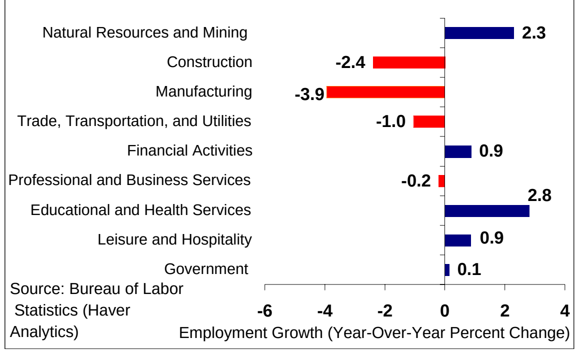
The 2004 outlook for the Texas economy calls for continued economic growth, which would result in the state's best economic showing, on an annual basis, since 2000.

Chart 1. Re-benchmarked Job Numbers Show Texas Employment Growth Trailing the Nation in 2003.



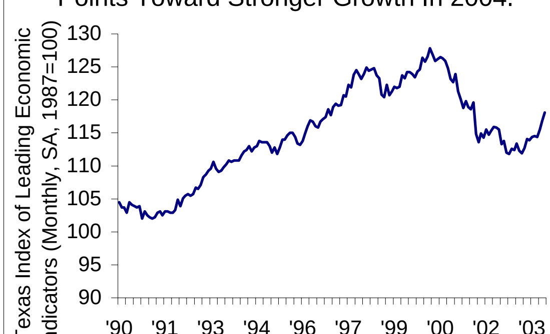
Source: BLS/Haver Analytics

Chart 2: The Texas Manufacturing Sector Leads Job Losses.



Source: Bureau of Labor Statistics (Haver Analytics)

Chart 3: Texas Index Of Leading Indicators Points Toward Stronger Growth In 2004.



Source: Federal Reserve Bank of Dallas

- The Texas Index of Leading Indicators[1] reveals that the state's economy has been growing consistently stronger since the second half of 2003 and will likely continue through 2004 (See Chart 3).

- Business growth will come primarily from a rebound in technology-related spending, aimed at replacing aging capital equipment and boosting productivity.

- The state's continued trend of strong population in-migration, a large Hispanic population, and an influx of retirees will increase demand for residential construction, public infrastructure, education, and health services.

Despite weakness in CRE markets, lenders have not experienced significant deterioration in their portfolios.

- The **Dallas** metro area continued to report the highest office vacancy rate in the nation at 27.5 percent as of year-end 2003. **Austin** ranked second at 24.1 percent. Industrial, multifamily, and hotel property types have shown similar signs of weakness.

- Despite continued weakness in commercial real estate (CRE) markets, Texas insured institutions reported the highest concentration of CRE loans[2] as a percent of Tier 1 capital in a decade (See Chart 4).

- Notwithstanding this heightened exposure, CRE past-due rates remained at the low end of the last five-year averages This can be attributed to continued low interest rates; the tremendous growth in publicly held CRE debt and equity positions and availability of related market information,; and continued regulatory scrutiny and more stringent CRE lending standards.[3]

Consumer fundamentals exhibit some continued signs of weakness., but insured institution credit quality has not been affected

- Texas residential mortgage foreclosures rose to the highest level in a decade, almost doubling during the past three years (See Chart 5).

- While Texas insured institutions report stable residential loan past-due rates, similar to national levels, rising mortgage foreclosure rates could be an area to watch, especially if long-term interest rates rise.

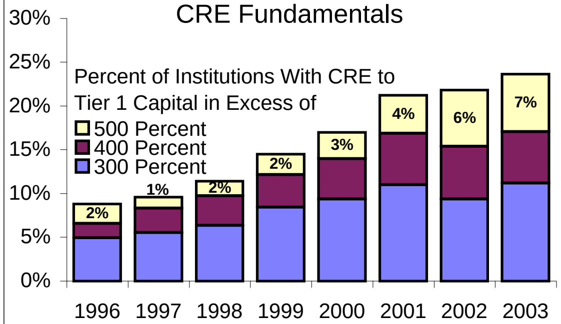
- Texas per capita bankruptcy rates continued to hover near record levels, albeit below the national average. Moreover, lackluster employment growth does not suggest a quick recovery. However, consumer loans held by Texas insured institutions continued to report stable past-due and charge-off rates.

The banking landscape is expected to become more competitive as major banks plan expansion in the Lone Star state because of strong demographics.

- Wachovia Corporation President, Benjamin Jenkins, expects Texas to add more than $75 billion in deposits over the next five years and said that the bank will enter Texas this year with plans for up to 250 branches statewide by 2010.[4]

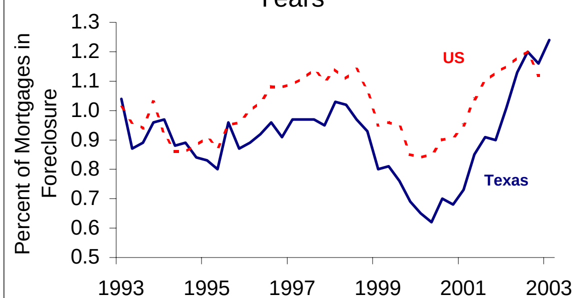
- Similarly, Bank of America, the state's second largest deposit market share holder, plans to add 90 branches between 2003 and 2004 and Washington Mutual said it plans 30 new Texas branches this year.[5]

Chart 4: Texas Institutions Continue To Report High Levels Of CRE Exposure Despite Weak CRE Fundamentals



Source: Bank and Thrift Call Reports

Chart 5:Texas Mortgage Foreclosure Rates Have Almost Doubled Over The Past Three Years



Source: Mortgage Bankers Association/Haver Analytics

[1]The Texas Leading Index is a measure of the current conditions in the Texas economy; the higher its value, the better are economic conditions in Texas. The index leads changes in Texas employment by six months.
[2]Commercial real estate is defined as non-residential real estate, multifamily, and construction and development loans.
[3]Murray, Thomas, "How Long Can Bank Portfolios Withstand Problems in Commercial Real Estate?" FDIC FYI, June 23, 2003.

[4]Fuquay, Jim, "Wachovia announces big move into Texas; the North Carolina banking company is the latest of several aiming to expand in the state," The Fort-Worth Star-Telegram, February 19, 2004.
[5]Ibid.

Texas at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	698	715	735	759	806
Total Assets (in thousands)	200,190,786	216,906,616	199,339,843	233,380,055	240,138,031
New Institutions (# < 3 years)	21	16	20	27	38
New Institutions (# < 9 years)	57	53	53	50	48

Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	9.08	8.97	8.81	9.06	8.94

Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	2.04%	2.24%	2.19%	2.04%	1.90%
Past-Due and Nonaccrual >= 5%	99	121	130	102	112
ALLL/Total Loans (median %)	1.27%	1.25%	1.21%	1.18%	1.18%
ALLL/Noncurrent Loans (median multiple)	1.93	1.71	1.84	2.04	2.10
Net Loan Losses/Loans (aggregate)	0.40%	0.42%	0.42%	0.36%	0.45%

Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	38	48	54	34	46
Percent Unprofitable	5.44%	6.71%	7.35%	4.48%	5.71%
Return on Assets (median %)	1.01	1.09	1.06	1.20	1.12
25th Percentile	0.63	0.69	0.66	0.86	0.73
Net Interest Margin (median %)	4.21%	4.48%	4.44%	4.75%	4.55%
Yield on Earning Assets (median)	5.59%	6.36%	7.60%	8.29%	7.71%
Cost of Funding Earning Assets (median)	1.33%	1.90%	3.16%	3.51%	3.15%
Provisions to Avg. Assets (median)	0.16%	0.20%	0.16%	0.16%	0.14%
Noninterest Income to Avg. Assets (median)	0.93%	0.89%	0.89%	0.88%	0.87%
Overhead to Avg. Assets (median)	3.36%	3.42%	3.42%	3.48%	3.42%

Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	63.30%	63.22%	62.37%	62.14%	59.04%
Loans to Assets (median %)	53.75%	54.66%	54.27%	54.65%	51.70%
Brokered Deposits (# of Institutions)	74	57	49	46	39
Bro. Deps./Assets (median for above inst.)	2.72%	3.31%	1.91%	2.01%	2.20%
Noncore Funding to Assets (median)	16.24%	16.55%	16.46%	15.92%	15.38%
Core Funding to Assets (median)	72.60%	72.65%	72.64%	73.04%	74.04%

Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	294	294	301	311	334
National	317	332	342	358	380
State Member	43	43	43	40	39
S&L	11	11	12	10	11
Savings Bank	11	12	13	16	15
Stock and Mutual SB	22	23	24	24	27

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	369	35,463,955	52.87%	17.72%
Dallas TX PMSA	72	40,765,014	10.32%	20.36%
Houston TX PMSA	49	32,315,467	7.02%	16.14%
Ft Worth-Arlington TX PMSA	41	8,230,661	5.87%	4.11%
Austin-San Marcos TX	21	4,318,714	3.01%	2.16%
San Antonio TX	16	26,595,896	2.29%	13.29%
Longview-Marshall TX	12	1,627,523	1.72%	0.81%
Waco TX	11	1,656,695	1.58%	0.83%
Killeen-Temple TX	10	2,566,506	1.43%	1.28%
Lubbock TX	10	6,812,952	1.43%	3.40%
McAllen-Edinburg-Mission TX	10	8,743,128	1.43%	4.37%
Corpus Christi TX	8	1,924,328	1.15%	0.96%
Sherman-Denison TX	7	1,189,759	1.00%	0.59%